

Department of Mental Health and Developmental Disabilities

September 2003

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**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY**

State Capitol
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John G. Morgan
Comptroller

September 18, 2003

The Honorable Phil Bredesen, Governor
and

Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

and
The Honorable Ginna Betts, Commissioner
Department of Mental Health and Developmental Disabilities
Cordell Hull Building, Third Floor
425 Fifth Avenue North
Nashville, Tennessee 37247

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Department of Mental Health and Developmental Disabilities for the period July 1, 2000, through May 31, 2003.

The review of management's controls and compliance with policies, procedures, laws, and regulations resulted in certain findings which are detailed in the Objectives, Methodologies, and Conclusions section of this report.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/cj
03/059



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT**

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June 9, 2003

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have conducted a financial and compliance audit of selected programs and activities of the Department of Mental Health and Developmental Disabilities for the period July 1, 2000, through May 31, 2003.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. These standards require that we obtain an understanding of management controls relevant to the audit and that we design the audit to provide reasonable assurance of the Department of Mental Health and Developmental Disabilities' compliance with the provisions of policies, procedures, laws, and regulations significant to the audit. Management of the Department of Mental Health and Developmental Disabilities is responsible for establishing and maintaining internal control and for complying with applicable laws and regulations.

Our audit disclosed certain findings which are detailed in the Objectives, Methodologies, and Conclusions section of this report. The department's administration has responded to the audit findings; we have included the responses following each finding. We will follow up the audit to examine the application of the procedures instituted because of the audit findings.

We have reported other less significant matters involving the department's internal controls and/or instances of noncompliance to the Department of Mental Health and Developmental Disabilities' management in a separate letter.

Sincerely,

Arthur A. Hayes, Jr., CPA,
Director

AAH/cj

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Department of Mental Health and Developmental Disabilities
For the Period July 1, 2000, through May 31, 2003

AUDIT SCOPE

We have audited the Department of Mental Health and Developmental Disabilities for the period July 1, 2000, through May 31, 2003. Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of management of the department, revenue, expenditures, TennCare, trust funds, inventory, maintenance benefits, equipment, performance evaluations, the Financial Integrity Act, and Department of Finance and Administration Policy 20—*Recording of Federal Grant Expenditures and Revenues*. The audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

AUDIT FINDINGS

The Department of Mental Health and Developmental Disabilities' Control Environment Is Ineffective

The department failed to provide for critical lines of communication between the central office and institutions' staff and to facilitate effective communication among staff at the five institutions. As a result, inconsistent policies and procedures were noted (page 4).

The Department of Mental Health and Developmental Disabilities Does Not Have a Uniform, Related-Party Transaction Policy*

The department failed to finalize a uniform, related-party transaction policy which requires that conflict-of-interest disclosure statements be placed in key employee personnel files. As a result, the department is still not requiring employees department-wide to report conflicts of interest based on a uniform policy (page 7).

The Internal Controls Over the Cash-Receipt and Check-Writing Processes at Middle Tennessee Mental Health Institute Were Inadequate

The controls over the cash-receipt process at Middle Tennessee Mental Health Institute were not adequate. The institute does not have proper segregation of duties during the cash-receipt process, checks were not included on the mail log, and cash receipts were not deposited timely. In addition, the controls over the check-writing process were not adequate. The institute does not have proper segregation of duties during the check-writing process, and adequate accountability over the check stock was not maintained (page 10).

Internal Controls Over Revenue Recorded in the Behavioral Health Information System Were Not Adequate

The department's controls over revenue recorded in the Behavioral Health Information System (BHIS) were not adequate. The five mental health institutes inconsistently posted revenue to BHIS and did not properly reconcile revenue posted (page 11).

Memphis Mental Health Institute Processed Consultant Travel Claims Using Outdated Travel Regulations*

The Memphis Mental Health Institute failed to process travel claims for the consultants under contract with the institute in

accordance with current travel regulations (page 13).

The Department Did Not Properly Approve Contracts Before the Beginning of the Contract Period*

The department has continued to approve contracts after the beginning of the contract period, which allowed services to be rendered before contracts were approved. Contracts were not approved until 8 to 250 days after the beginning of the contract period, an average of 60 days late (page 14).

The Department's Policies Related to Individual Trust Fund Balances of Discharged Patients Were Inadequate and Ambiguous*

The department failed to revise ambiguous policies regarding balances of discharged patients. As a result, inconsistent timetables were used among the five mental health institutes for sending notification letters to the patient and for seeking approval to transfer funds to the benevolent fund (page 16).

The Department's Inventory Systems Were Not Adequately Maintained*

The department still has not adequately maintained the inventory control systems. In a sample of departmental inventory items, many items did not match the amounts shown on the inventory listing. Problems were noted at four of the five mental health institutes (page 18).

*This finding is repeated from the prior audit.

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report, which contains all findings, recommendations, and management comments, please contact

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Audit Report
Department of Mental Health and Developmental Disabilities
For the Period July 1, 2000, through May 31, 2003

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**Department of Mental Health and Developmental Disabilities
For the Period July 1, 2000, through May 31, 2003**

INTRODUCTION

POST-AUDIT AUTHORITY

This is the report on the financial and compliance audit of the Department of Mental Health and Developmental Disabilities. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

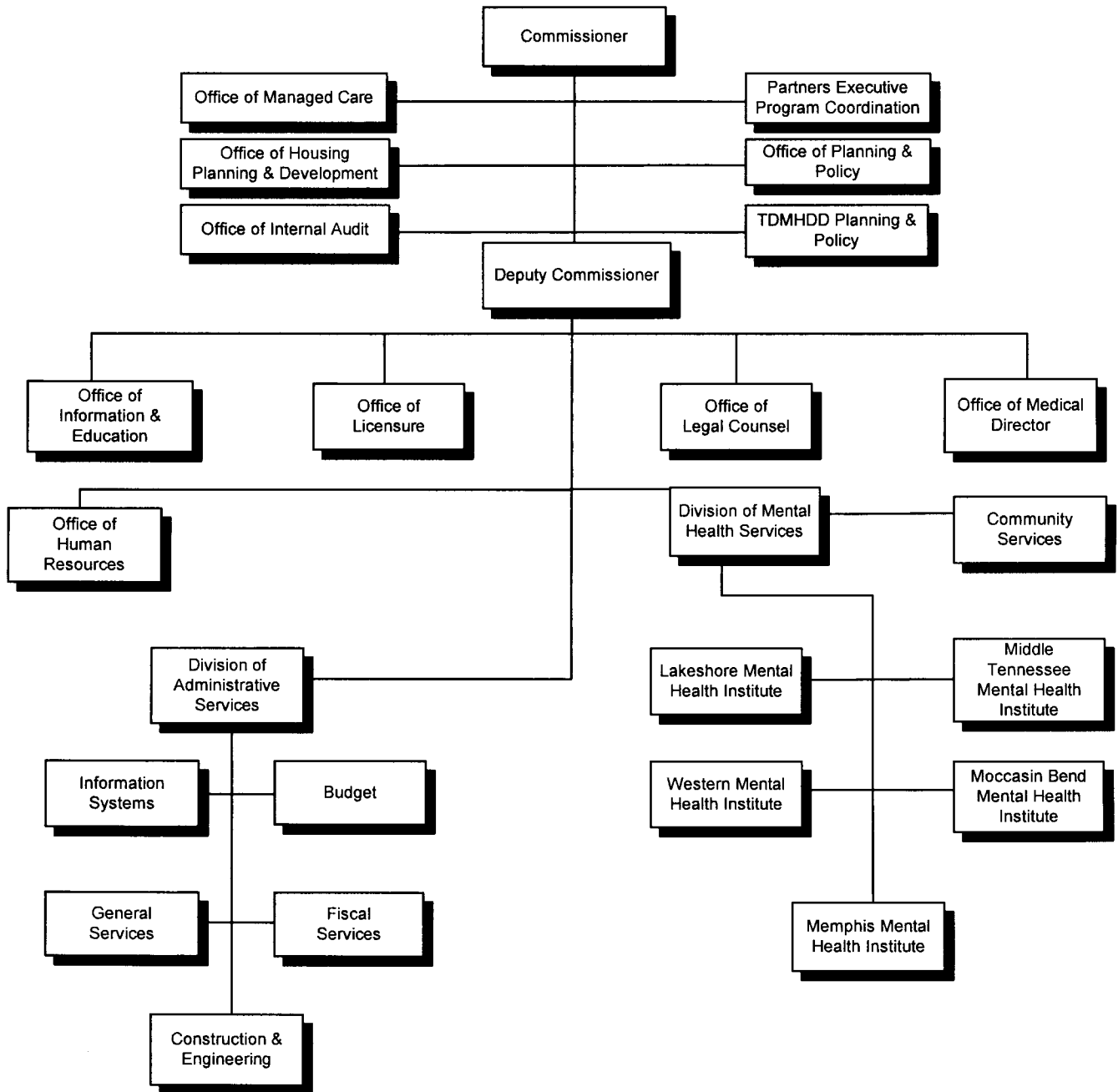
Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

BACKGROUND

The department is the state’s mental health and developmental disabilities authority and is responsible for system planning, setting policy and quality standards, system monitoring and evaluation, disseminating public information, and advocacy for persons of all ages who have mental illness, serious emotional disturbance, or developmental disabilities. The department’s mission is to plan for and promote the availability of a comprehensive array of quality prevention, early intervention, treatment, habilitation, and rehabilitation services and supports based on needs of individuals with mental illness, serious emotional disturbance, or developmental disabilities. By agreement with the Bureau of TennCare, the department also oversees and monitors the programmatic components of the TennCare Partners Program; monitoring responsibilities include assessment of the adequacy of the provider network and the quality of services provided. The department also provides administrative support services to the Division of Mental Retardation Services in the Department of Finance and Administration.

An organization chart of the department is on the following page.

Department of Mental Health and Developmental Disabilities Organization Chart



AUDIT SCOPE

We have audited the Department of Mental Health and Developmental Disabilities for the period July 1, 2000, through May 31, 2003. Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of management of the department, revenue, expenditures, TennCare, trust funds, inventory, maintenance benefits, equipment, performance evaluations, the Financial Integrity Act, and Department of Finance and Administration Policy 20—*Recording of Federal Grant Expenditures and Revenues*. The audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

PRIOR AUDIT FINDINGS

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The Department of Mental Health and Developmental Disabilities filed its report with the Department of Audit on February 11, 2003. A follow-up of all prior audit findings was conducted as part of the current audit.

RESOLVED AUDIT FINDINGS

The current audit disclosed that the Department of Mental Health and Developmental Disabilities has corrected previous audit findings concerning controls over checks at Moccasin Bend Mental Health Institute, the use of an inappropriate interagency agreement with the Department of Finance and Administration (F&A), controls over the patient's imprest fund at Memphis Mental Health Institute, patient trust fund bank reconciliations at Moccasin Bend Mental Health Institute, failure to maintain supporting documentation for patient trust fund disbursements at the Middle Tennessee Mental Health Institute, lack of compliance with F&A's policy 16—*Employee Housing and Meals*, the accuracy of information in the Property of the State of Tennessee (POST) system, performance evaluations, and failure to complete a Title IX implementation plan.

REPEATED AUDIT FINDINGS

The prior audit report also contained findings concerning the lack of a current related-party transaction policy, untimely approval of contracts, the lack of compliance with contract guidelines and inadequate review of travel claims at the Memphis Mental Health Institute, inadequate and ambiguous policies and procedures related to trust funds of discharged patients, and improper maintenance of the inventory system. These findings have not been resolved and are repeated in the applicable sections of this report.

OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

MANAGEMENT OF THE DEPARTMENT

Our primary objective was to evaluate the control environment of the department. Top management is responsible for establishing an effective control environment, which is the foundation for all other components of internal control: risk assessment, control activities, information and communication, and monitoring. The control environment is the foundation for all other components of internal control, providing discipline and structure which set the tone of an organization.

The following is a list of “control environment factors”:

- integrity and ethical values,
- commitment to competence,
- management’s philosophy and operating style,
- organization structure, and
- assignment of authority and responsibility.

We determined that the Department of Mental Health and Developmental Disabilities’ control environment was ineffective because management did not provide for critical lines of communication between the central office personnel and the institution’s staff and did not facilitate effective communication among the staff at the five institutions. See findings 1 and 2 for details.

1. The Department of Mental Health and Developmental Disabilities' control environment is ineffective

Finding

The Department of Mental Health and Developmental Disabilities has not established an effective control environment for the department, including its five mental health institutions. Management of the department has not provided for critical lines of communication between the central office personnel and the institutions' staff. In addition, the department has not facilitated effective communication among staff at the five institutions. As a result, the department's policies and procedures are inconsistent within each mental health institution and with those of the central office.

Management is responsible for establishing and maintaining effective internal control to help ensure that appropriate goals and objectives are met; resources are used efficiently, economically, and effectively, and are safeguarded; laws and regulations are followed; and reliable data are obtained, maintained, and fairly disclosed.

Testwork and interviews revealed that fiscal policies and procedures were not consistent among the five mental health institutes. The department (including the mental health institutes) follows the Department of Finance and Administration (F&A) policies and procedures when applicable; however, F&A policies and procedures do not address all areas of operations related to the department. For these areas, each institute and the central office develop their own policies and procedures, which results in inconsistencies. The following inconsistencies in policies and procedures were noted during testwork:

- As discussed in finding 3, the department does not have a uniform related-party transaction policy. Each institute and the central office have their own policy. Some policies require full disclosure of employee awareness about the conflicts of interest while other policies do not require any disclosure in personnel files. Without a uniform policy, top management cannot be sure that conflicts of interest are appropriately reported and disclosed throughout the department.
- The department uses the Behavioral Health Information System (BHIS) to record patient charges and to prepare monthly bills to patients' primary and secondary insurance providers. The department's central office has provided the institutes with the BHIS manual; however, the central office has not provided adequate instruction for the consistent and proper use of BHIS. Because of the lack of department-wide policies, each institute has established its own procedures. As discussed in finding 4, only one of the five mental health institutes recorded behavioral health organization payments, and one institute was not properly documenting overpayments or withholdings by Medicare or private insurance companies.
- The institutes have different policies related to outstanding checks in the patient trust fund. Memphis Mental Health Institute does not have an established policy for following up on outstanding checks, and Moccasin Bend Mental Health Institute does

not void or investigate checks until they have been outstanding for 12 months. The remaining institutes investigate checks after they have been outstanding for 120 to 180 days by sending letters to the last known address of the patient. Therefore, the timetable for voiding outstanding checks is different at each mental health institute.

- Testwork and interviews also revealed that the communication among the fiscal staff at the mental health institutes is limited. Based on observation and discussions with personnel, fiscal staff at the institutes do communicate with each other from time to time during the audit period. However, this communication is limited to one or two staff members inquiring about specific issues. The department's central office has not facilitated regular meetings for the fiscal staffs from each institute to share ideas, resolve problems, or coordinate development of department-wide policies. Even though any communication between staff is beneficial, regular organized meetings in which staff at all the institutes could discuss issues related to operations would be the most efficient and effective. Regular meetings would ensure that policies and procedures at the institutes are applied consistently, computer systems are used properly, and information is shared with all institutes.
- The auditors also noted that the central office fiscal staff does not take responsibility for the fiscal staff at the institutes. Based on observations and interviews with the Director of Fiscal Services, the mental health institutes are basically functioning independently from each other and from the central office. As a result, the central office staff cannot be certain that the department is operating as efficiently as possible.

A strong control environment is the responsibility of top management and is essential to ensure that the department's and the state's goals and objectives are met; departmental resources are used efficiently, economically, and effectively, and are safeguarded; laws and regulations are followed; and reliable data are obtained, maintained, and fairly disclosed to the citizens of Tennessee. Without a strong control environment, including consistent policies and procedures and improved communication within the department, the Commissioner cannot be sure the department as a whole is operating as intended.

Recommendation

The Commissioner should design and develop a strong control environment and assign the Director of Fiscal Services the responsibility of establishing consistent policies and procedures within the department. Changes in policies and procedures should be determined in conjunction with the personnel from the five mental health institutes. Central office staff should also perform proper monitoring of the policies and procedures. In addition, the Commissioner should ensure that communication among the institutes improves and maximizes the sharing of information.

Management's Comment

We concur. Policies and procedures will be established within the department and consistently applied in each of the regional mental health institutes. A monitoring initiative will be developed to ensure uniform compliance.

2. The Department of Mental Health and Developmental Disabilities does not have a uniform related-party transaction policy

Finding

As noted in the prior audit, the Department of Mental Health and Developmental Disabilities does not have a related-party transaction policy which requires conflict-of-interest disclosure statements in employees' personnel files. In response to the prior finding, the department's central office drafted a new policy; however, the policy has not been finalized, and personnel files have not been updated. As a result, the department is still not requiring employees department-wide to report conflicts of interest based on a uniform policy.

Based on discussions with management at the department's central office and the five mental health institutes, the following inconsistencies were noted:

- One institute had a conflict-of-interest policy which complied with state law and required documentation in personnel files indicating that employees were aware of the policy.
- Three institutions had policies that required documentation in personnel files; however, the required disclosure was limited to disclosure of conflicts of outside employment (two institutes) or disclosure of conflicts for personnel assigned to evaluate a request for proposal (one institute).
- The remaining institute and the central office conflict-of-interest policies required no disclosures in personnel files.

Section 12-4-101, *Tennessee Code Annotated*, "Personal interest of officers prohibited," states,

It is unlawful for any officer, committee member, director, or other person whose duty it is to vote for, let out, overlook, or in any manner to superintend any work or any contract in which any municipal corporation, county, state, development district, utility district, human resource agency, or other political subdivision created by statute shall or may be interested, to be directly interested in any such contract.

Unless a uniform policy concerning related-party transactions is provided for employees to read and become aware of, inconsistent policies will continue to exist. More importantly, in

the absence of a clear, uniform policy, employees may not be aware of or may not understand the requirement to disclose potential conflicts of interest with related parties.

Recommendation

The Commissioner should assign responsibility to the appropriate personnel to develop and circulate a uniform, department-wide policy for potential conflicts of interest. A conflict-of-interest form should be used to document any conflicts of key employees responsible for awarding contracts. These forms should be maintained in the employees' personnel files.

Management's Comment

We concur. Each employee in the department will be required to sign a statement acknowledging receipt of the department's Conflict of Interest Policy.

REVENUE AND EXPENDITURES

The objectives of our review of the revenue and expenditure controls and procedures in the Department of Mental Health and Developmental Disabilities' central office and five mental health institutes were to determine whether

- a reasonable degree of assurance was obtained as to the accuracy and the validity of the revenue;
- cash collected during the audit period was deposited timely and accounted for in the appropriate fiscal year;
- revenues or fees were billed or charged and recorded at the correct amount;
- physical controls over cash were adequate;
- petty cash or change funds were authorized by the Department of Finance and Administration;
- departmental bank accounts were reconciled each month, and the reconciliations were adequately supported;
- department records were reconciled with Department of Finance and Administration reports;
- controls over check-writing processes were adequate;
- recorded expenditures for goods or services were authorized and received;
- expenditures incurred for goods or services were identified and properly recorded;
- payments were made in a timely manner;

- expenditures for goods and services were in compliance with the budget and other regulations or requirements;
- expenditures for travel were paid in accordance with the Comprehensive Travel Regulations;
- department records were reconciled with Department of Finance and Administration reports; and
- contracts were made in accordance with regulations and contract terms.

We interviewed key department personnel and reviewed policies and procedures to gain an understanding of the controls over cash on hand, revenue, and fees collected by the department. We also reviewed supporting documentation for these procedures and controls. In addition, we tested a nonstatistical sample of revenue transactions occurring between July 1, 2000, and December 31, 2002, at the central office and the Middle Tennessee Mental Institute for adequate support, timely deposits, agreement of amounts receipted and deposited, and correct recording and billing. We performed petty cash counts at the central office and the five mental health institutes to verify that physical controls over cash were adequate. We also reviewed supporting documentation to ensure that petty cash amounts were authorized. In addition, we reviewed reconciliations of departmental bank accounts at the five mental health institutes to ensure that bank accounts were reconciled monthly and were adequately supported. We also reviewed supporting documentation to determine whether the records at the central office and the five mental health institutes were reconciled with reports from the Department of Finance and Administration.

For our expenditure testwork, we interviewed key department personnel and reviewed policies and procedures to gain an understanding of the controls over expenditures and the check-writing process. We also reviewed supporting documentation for these procedures and controls. In addition, we tested a nonstatistical sample of revenue transactions occurring between July 1, 2000, and December 31, 2002, at the central office, the Middle Tennessee Mental Health Institute, the Memphis Mental Health Institute, and the Moccasin Bend Mental Health Institute to determine if expenditures were authorized and received, recorded correctly, paid timely, and processed in accordance with the budget provisions and travel regulations. We reviewed supporting documentation to determine whether the records at the central office and the five mental health institutes were reconciled with reports from the Department of Finance and Administration. We also tested a nonstatistical sample of contracts with payments made between July 1, 2000, and January 31, 2003, to determine if contracts were made in accordance with regulations and contract terms.

Based on interviews, we determined that the Middle Tennessee Mental Health Institute did not have adequate segregation of duties over the cash-receipting and check-writing processes. See finding 3 for further details. We also determined that the department did not have adequate controls over revenue posted to patients' accounts. See finding 4 for further details.

Based on interviews, reviews of supporting documentation, and testwork, deposits were made timely, revenue and fees were charged and recorded at the correct amount, petty cash was

authorized and verified, departmental bank accounts were reconciled monthly and were adequately supported, and records were reconciled with reports from the Department of Finance and Administration.

Based on our expenditure testwork, expenditures were authorized and received, recorded correctly, paid timely, and processed in accordance with budget provisions. We determined that the Memphis Mental Health Institute processed consultant travel claims using outdated travel regulations. See finding 5 for further details. Based on reviews of supporting documentation, department records were reconciled with reports from the Department of Finance and Administration. We also determined that the department did not properly approve contracts before the beginning of the contract period. See finding 6 for further details.

3. The internal controls over the cash-receipt and check-writing processes at Middle Tennessee Mental Health Institute were inadequate

Finding

The controls over the cash-receipt and check-writing processes at Middle Tennessee Mental Health Institute were not adequate. The institute receives checks from private insurance companies and the Social Security Administration for payment of patient charges and social security benefits, respectively. The institute also receives cash and checks from individuals (friends or relatives of a patient) for the patient's personal use.

Testwork on the cash-receipt process revealed the following deficiencies:

- The staff duties in the cash-receipt process of funds received for payment of patient charges were not adequately segregated. The same employee prepares the certification of deposit, takes the deposit to the bank, and posts the revenue to the accounting records.
- All checks received were not included on the mail log. Mail addressed to patients was opened by the patients was opened by the patient account specialist, and checks received were forwarded to the employee responsible for preparing cash receipts instead of to the employee responsible for the mail log.
- For 5 of 25 revenue transactions tested (20%), the cash receipts were not deposited within one business day of the date the funds were received. According to staff, the funds were not deposited because a cash receipt was not prepared for these revenue items until the day after the funds were received.

The institute prepares checks from the patients' trust funds for payment of personal expenses. Testwork on the check-writing process revealed the following deficiencies:

- The same employee receives each check request, verifies that it has the proper authorizations, types the check, obtains needed signatures on the check, logs the check in the check logbook, and issues/mails the check to the payee.
- During business hours, blank checks are kept in an unlocked bin above an employee's desk. Storing blank checks in an unlocked location makes them susceptible to theft.

Effective internal controls over cash receipting require proper segregation of duties and timely deposit of receipts. Allowing the same employee to prepare the deposit, take the deposit to the bank, and post the revenue to the accounting records, in addition to holding cash on hand longer than necessary, provides the opportunity for and increases the risk of the theft of funds. Effective internal controls over the check-writing process also require proper segregation of duties. Allowing the same employee to prepare the checks, obtain signatures, and disburse the checks provides opportunity for unauthorized expenditures. Furthermore, storing blank checks in an unlocked location makes them susceptible to theft.

Recommendation

The institute's Fiscal Director should ensure that the duties of the cash-receipt process are properly segregated. The responsibilities of preparing the deposit, taking the deposit to the bank, and posting the revenue to the accounting records should be performed by different individuals. In addition, cash-receipting procedures should be revised to ensure that funds are deposited timely and that all checks received are included on the mail log.

In addition, the institute's Fiscal Director should ensure that duties are properly segregated during the check-writing process. The responsibilities of preparing the checks, obtaining signatures, and disbursing checks after approval should be delegated to different individuals. Blank checks should be stored in a locked location when not in use. The department's Fiscal Director and central office staff should monitor the institutes to ensure duties are properly segregated.

Management's Comment

We concur. Functions will be redistributed among employees to ensure a proper segregation of duties.

4. Internal controls over revenue recorded in the Behavioral Health Information System were not adequate

Finding

The department's controls over revenue recorded in the Behavioral Health Information System (BHIS) were not adequate. The department uses BHIS to record patient charges and to prepare monthly bills to patients' primary and secondary insurance providers. During the audit period, revenue was received from private insurance companies, Medicare, and behavioral health organizations (BHOs). The five mental health institutes inconsistently posted revenue to BHIS and did not properly reconcile revenue posted.

Testwork and interviews revealed that, prior to June 2003, four of the five mental health institutes did not post to BHIS revenue received from the BHOs. This revenue was not posted to BHIS because the payments from the BHOs were not identified by patient. However, one institute, Middle Tennessee Mental Health Institute, posted the BHO payments to BHIS by allocating the total payment to patient accounts. Personnel at the other institutes decided not to allocate the BHO payments to patients' accounts in BHIS until guidance was received from the central office. Based on discussions with the Director of Fiscal Services, all five institutes are currently using a computer program created by the central office to allocate the total payments to patient accounts.

In addition, personnel at Memphis Mental Health Institute (MMHI) did not post actual revenue received, such as overpayments or withholdings by Medicare or private insurance companies, to BHIS. Revenues were, however, properly posted to the State of Tennessee Accounting and Reporting System (STARS). Based on interviews, overpayments and withholdings were not posted because personnel were not aware of the proper code to use in BHIS. Because overpayments or withholdings were not recorded in BHIS, personnel failed to establish alternative procedures to document overpayments and withholdings. Without proper documentation of overpayments or withholdings, the institute cannot be sure that overpayments were properly refunded or that all revenue earned was received. Also the receipt date written on the hand-written receipt was not always entered on the posting transaction screen in BHIS. The inconsistency of receipt dates could cause difficulty in verifying payments received.

Interviews with management at all institutes also revealed that staff did not reconcile revenue posted to BHIS to supporting documentation. Even though institute accounting staff regularly reconciled revenue posted to STARS to the institutes' cash receipts records, no staff at the institutes reconciled revenue posted in BHIS to STARS or to the institutes' cash records. Without reconciling revenue posted to BHIS, the department cannot be sure that amounts were properly recorded into BHIS and that the monthly billings to patients' secondary insurance were accurate.

Recommendation

The Commissioner should assign clear responsibilities for establishing and implementing controls and policies and procedures for receipt of all types of revenue. The fiscal staff should perform reconciliations of revenue posted in BHIS to STARS or other supporting documentation. All overpayments or withholdings should be documented.

Management's Comment

We concur. Procedures will be developed to ensure reconciliation of revenue posted to the individual patients' accounts in BHIS to the revenue recorded in STARS.

5. Memphis Mental Health Institute processed consultant travel claims using outdated travel regulations

Finding

As noted in the prior audit, the Memphis Mental Health Institute (MMHI) failed to follow state travel regulations for payment of travel claims for the consultants under contracts with the institute. The institute contracts with individuals to "be available for a minimum of three (3) consecutive days each month to provide on-site training and consultation at MMHI regarding the mental health treatment planning process." Each contract specifies that travel compensation "shall be in the amount of actual costs, subject to maximum amounts and limitations specified in the State Comprehensive Travel Regulations." Management concurred with the prior finding and stated that employees would be instructed to review and process travel payments consistent with rules, regulations, and contract guidelines. However, neither the central office nor MMHI management ensured that MMHI staff was processing travel payments in accordance with the current travel regulations.

Testwork revealed that 11 of 37 consultants' travel claims examined (30%) had hotel charges that were incorrectly billed and underpaid. The consultants billed the institute for hotel charges at \$70 a night without tax. Outdated travel regulations were used when the travel claims were reviewed, and the hotel charges reimbursed to the consultants were reduced to \$60 a night plus tax. As a result, the consultants were not properly compensated for actual travel costs as permitted by the contract.

Because Memphis Mental Health Institute staff failed to process travel claims using current travel regulations, contract provisions were not met.

Recommendation

The Director of Fiscal Services should ensure that the institute has the most current Department of Finance and Administration policies and procedures by notifying staff of revisions. The Superintendent should ensure that personnel perform reviews of consultant travel claims based on the most current travel regulations. Proper monitoring should also be performed to ensure that travel claims are properly paid.

Management's Comment

We concur. At Memphis Mental Health Institute, revisions to the State of Tennessee Comprehensive Travel Regulations will be communicated to appropriate staff on a timely basis; computation of travel claims will be monitored to ensure the claims are being paid properly.

6. The department did not properly approve contracts before the beginning of the contract period

Finding

As noted in the prior audit, the department did not properly approve all contracts before the beginning of the contract period. Testwork revealed that for 37 of 60 contracts tested (62%), there was not adequate documentation that contracts had been properly approved before the beginning of the contract period. Thirty-six contracts were not approved until 8 to 250 days after the beginning of the contract period, an average of 59.6 days late. One contract was not dated by all the required individuals so date of approval could not be determined. Contracts appeared to be approved before payments were made; however, because the contract period had begun before all of the required signatures were obtained, services may have been performed before the contract was authorized.

Chapter 0620-3-3-04(c)(8) of the *Rules of the Department of Finance and Administration* states,

Upon approval by the Commissioner of Finance and Administration, it [the contract] shall be an effective and binding contract.

If contracts are not approved before the contract period begins, the state could be obligated to pay for unauthorized services.

Recommendation

The Commissioner should ensure that all contracts are properly approved before the beginning of the contract period by developing and implementing deadlines to ensure timely approval by all required individuals.

Management's Comment

We concur. Additional controls will be adopted to ensure that all parties properly approve contracts before the beginning of the contract period.

TENNCARE

The objective of our review of TennCare controls and procedures in the Department of Mental Health and Developmental Disabilities was to determine whether the department had adequate procedures in place to ensure its responsibilities were performed in accordance with the TennCare Partners Program agreement.

We interviewed key personnel and reviewed the contract to gain an understanding of the department's responsibilities over the TennCare Partners Program. We interviewed key personnel and examined supporting documentation to ensure that the department was in compliance with the contract terms related to enrollment of individuals in TennCare as "state-onlys" and "judicials" and review of the adequacy of the behavioral health organization provider networks. In addition, we examined the department's procedures for billing TennCare for administrative costs related to the TennCare Partners Program during the audit period. We found that the department's responsibilities under the agreements were adequately performed.

TRUST FUNDS

The objectives of our review of the trust fund controls and procedures in the Department of Mental Health and Developmental Disabilities' five mental health institutes were to

- document controls over specific-purpose funds, including trust funds;
- determine procedures used to compute patient payroll;
- determine procedures regarding the receipt, safekeeping, and record-keeping procedures regarding patients' property;
- review the procedures and process of allocating interest to the various specific-purpose accounts;
- determine if the department upheld its fiduciary duty to properly administer and account for patient funds by ensuring that receipts and other fund increases were properly recorded, expenditures were properly supported with patients' or other applicable approvals where necessary, specific purpose account expenditures were made for allowable purposes, and expenditures and other fund decreases were properly recorded;
- determine procedures regarding trust funds of discharged or deceased patients and determine that procedures were in compliance with state law; and

- review bank reconciliations for propriety.

We interviewed key department personnel and reviewed policies and procedures to gain an understanding of the controls over specific-purpose funds, patient payroll, patients' personal property, and allocating interest to specific-purpose accounts. We also reviewed supporting documentation for these procedures and controls and recalculated the interest allocation. We selected nonstatistical samples of trust fund transactions occurring between July 1, 2000, and May 5, 2003, to determine if receipts were deposited and recorded properly and expenditures were properly supported, approved, recorded, and for allowable purposes. In addition, we selected nonstatistical samples of patient trust fund accounts as of a selected day to determine compliance with state law. We also reviewed reconciliations of trust fund bank accounts to ensure the accounts were reconciled properly.

Based on interviews, review of supporting documentation, and testwork, we determined that policies and procedures regarding patient payroll, patients' personal property, and interest allocation were adequate; trust fund receipts were deposited and properly recorded; trust fund expenditures were supported, approved, properly recorded, and for allowable purposes; and trust fund bank accounts were properly reconciled.

We determined that the department's policies and procedures over the trust funds of deceased or discharged patients were not adequate. See finding 7 for further details.

7. The department's policies related to individual trust fund balances of discharged patients were inadequate and ambiguous

Finding

As noted in the prior audit, the department's policies regarding the handling of individual trust fund balances of discharged patients were inadequate and ambiguous. The policies failed to establish a timetable for sending the notification letter to a patient and for seeking approval to transfer a balance to the benevolent fund as noted below. Furthermore, the policies were not in compliance with state law.

Section 33-4-109(d) and (e), *Tennessee Code of Annotated*, requires that

- (d) If a person is discharged and leaves personal property in the facility, the chief officer shall promptly notify the person by registered mail addressed to the person's last known address that the property has been left and is subject to sale under subsection (e) if not claimed.
- (e) The chief officer shall keep the deceased or discharged person's personal property for six (6) months if it is not claimed. The chief officer shall then sell the property, with the approval of the commissioner, and deposit the proceeds in a fund, maintained under the supervision of the chief officer, for the benefits of needy service recipients.

Department policy requires that a reasonable attempt be made to return, upon discharge, all patient money and property left in the care of the department's facilities. Property should remain in the custody of the department for a minimum of 12 months after notification or death before additional disposal procedures apply. State law as noted above states that the department shall keep the personal property for six months if not claimed after notification, which should be promptly after discharge. Although the additional disposal procedures listed in the department's policies indicate that a letter should be used to follow up on outstanding checks written to disburse a patient's trust fund account balance and the letter should offer the former patient a choice between a replacement check or transferring the amount to the benevolent fund, the policies do not give a timetable for these actions to be performed. As a result, the institutions are determining their own procedures, the department is holding trust fund accounts for discharged patients over the six-month waiting period allowed by state law, and funds are not being transferred to the benevolent fund. The following problems were noted during testwork:

- At Lakeshore Mental Health Institute, 2 of 25 trust fund balances (8%) were still maintained after discharge of the patient. One patient was discharged on February 22, 2002; readmitted and discharged again on April 1, 2002; and notified of the outstanding check on September 19 and October 22, 2002, with no response. No request has been made by the institution to transfer these funds to the benevolent fund.
- At Memphis Mental Health Institute, 9 of 23 trust fund balances (39%) belonged to former patients who had been discharged for more than six months. Three patients discharged in January and July 2002 were notified in August 2002 with no response, and one patient was determined by the institution to be homeless over four years ago. The remaining five patients were discharged between September 2002 and January 2003 and have not been notified of the funds remaining in the trust fund. No request has been made by the institution to transfer these funds to the benevolent fund.
- At Moccasin Bend Mental Health Institute, 2 of 25 trust fund balances (8%) belonged to former patients who had been discharged for more than six months. Notification was sent to patients notifying them of the outstanding checks. No response was received from the patients, and no request has been made by the institution to transfer these funds to the benevolent fund.
- At Western Mental Health Institute, 2 of 25 trust fund balances (8%) belonged to former patients who had been discharged for more than six months. Notification was sent to patients notifying them of the outstanding checks. No response was received from the patients, and no request has been made by the institution to transfer these funds to the benevolent fund.

Failing to follow state laws to establish departmental policies regarding the handling of trust fund balances of discharged patients may prevent the patients from claiming their trust funds and the institutions from benefiting from unclaimed trust funds as allowed by state law.

Recommendation

The Commissioner should take immediate action to revise the policies regarding the handling of money belonging to discharged patients. The Commissioner should determine why no action has been taken for the past two years to make the policies less ambiguous and to ensure that state law is followed. Monitoring should also be performed to ensure the revised policies are followed.

Management's Comment

We concur. Policies and procedures will be developed which clearly identify the process for return of patients' property.

INVENTORY

The objectives of our review of the inventory controls and procedures in the Department of Mental Health and Developmental Disabilities' central office and five mental health institutes were to determine whether

- controls over inventory were adequate, and
- the inventory records matched the actual amounts on hand.

We interviewed key personnel to gain an understanding of the procedures and controls over inventories of pharmacy items, medical supplies, and central store items. We also reviewed supporting documentation for these procedures and controls. Based on information obtained from our planning and internal control questionnaire we selected items from each type of inventory from a current inventory listing. We performed a test count of selected inventory items at the five mental health institutes, noting any differences between the listing and the actual quantity counted.

During our test count, we determined that items on hand did not agree with the inventory listing at four of the five mental health institutes. See finding 8 for further details.

8. The department's inventory systems were not adequately maintained

Finding

As noted in the prior audit, the statewide mental health institutes have not adequately maintained the inventory control systems over pharmacy, central medical, central store, and purchasing supply items. The institutes use a perpetual inventory system to maintain up-to-date information regarding the amounts of inventory on hand. Under this system, the inventory

records are updated at the time items are added to or removed from the inventory. Test counts of departmental inventory revealed that for 14 of 76 total items examined (18%) the quantity did not match the amounts shown on the inventory listing.

The following discrepancies were noted:

- For one of five pharmacy items (20%) and one of three central medical supply items (33%) examined at Lakeshore Mental Health Institute, the quantity on hand did not match the inventory listing.
- For two of five pharmacy items (40%), one of five central medical supply items (20%), and one of four purchasing supply items (25%) examined at Memphis Mental Health Institute, the quantity on hand did not match the inventory listing.
- For three of four pharmacy items (75%), two of four central medical supply items (50%), and one of four central store items (25%) examined at Middle Tennessee Mental Health Institute, the quantity did not match the inventory listing.
- For two of three pharmacy items (67%) examined at Moccasin Bend Mental Health Institute, the quantity did not match the inventory listing.

Without maintaining accurate inventory records, the institutions cannot ensure that inventory items are adequately protected from misappropriation or loss.

Recommendation

The Director of Fiscal Services in conjunction with the Superintendent of each institute should take immediate action to ensure that inventory systems reflect accurate information. Inventory should be secured, and timely updates to the inventory systems should be performed. In addition, monitoring by central office staff should be performed to ensure that inventory systems are updated properly and reflect accurate information.

Management's Comment

We concur. The department's existing pharmacy system is now over 10 years old and no longer is capable of maintaining an acceptable level of accountability for the pharmaceutical inventory. The department is currently in the process of identifying and purchasing a new pharmacy system, which will provide the level of accountability required; funding limitations are a significant factor in the decision.

MAINTENANCE BENEFITS

The objectives of our review of the controls and procedures over maintenance benefits provided to employees were to determine whether

- controls over maintenance facilities were adequate,
- maintenance benefits were provided to employees under the proper authority,
- maintenance benefits were restricted to the employees allowed under state policy,
- the required forms were completed by applicable employees, and
- a complete list of employees receiving maintenance benefits and the amount of their benefits was provided to the Department of Finance and Administration in a timely manner.

We interviewed key personnel to gain an understanding of the department's procedures and controls over maintenance benefits. A listing of employees receiving maintenance benefits was obtained from the Department of Finance and Administration. We compared information related to employees at the Western Mental Health Institute to supporting documentation to determine if maintenance benefits provided to each employee were authorized and allowable under state policy and that all required forms were completed. We also compared the information on the listing to similar lists maintained by the central office and Western Mental Health Institute to determine if the information was accurate and updated timely.

Based on our interviews, review of supporting documentation, and testwork performed, we determined that controls and procedures over maintenance benefits and facilities were in place and effective to ensure that maintenance benefits provided to employees are authorized and in compliance with state policy. In addition, it was determined that the list of employees provided to the Department of Finance and Administration was complete and submitted timely.

EQUIPMENT

The objectives of the review of the equipment controls and procedures were to determine whether

- Property of the State of Tennessee (POST) access was restricted only to those persons who have job duties which require it and that the access does not create an inadequate segregation of duties;
- property leased from the Office for Information Resources (OIR) was properly accounted for;
- the information in POST for departmental equipment was correct; and
- vehicles leased from Motor Vehicles Management (MVM) were used only for official business and were restricted to only those persons whose job duties require it.

We interviewed key personnel to gain an understanding of the procedures for adding, deleting, and updating equipment information in POST. We also discussed controls over purchasing, receiving, tagging, and safeguarding equipment with appropriate personnel. A listing of department employees with access to POST was obtained and tested to ensure that access was

restricted and adequate. A listing of all equipment being leased from OIR was obtained to determine whether the information on the equipment matched the information on the listing. A nonstatistical sample of equipment assigned to allotment codes designated to the Department of Mental Health and Developmental Disabilities (MHDD) was selected from a list obtained from General Services. Equipment items were tested to determine whether the items could be physically located; the description, tag number, serial number, location code, and cost shown in POST were correct; and whether the state tag was on the equipment. We also selected a nonstatistical sample of vehicles leased to allotment codes designated to MHDD from a list obtained from MVM to determine if the vehicles could be located and was used for business purposes.

Based on interviews and testwork, we determined that policies and procedures regarding POST and equipment were adequate, access to POST appeared restricted and adequately segregated, equipment leased from OIR and assigned to the department could be located and contained state tags, information in POST was correct, and motor vehicles could be located and appeared to be used properly.

PERFORMANCE EVALUATIONS

Our work in the area of performance evaluations consisted of following up a prior audit finding concerning the lack of documentation to show that controls over performance evaluations have been strengthened.

To follow up the prior finding, we interviewed key personnel to assess whether management had made significant improvements in the area of performance evaluations. We also reviewed documentation to support these improvements.

Based on interviews and supporting documentation, we determined that the department had made significant improvements in the area of performance evaluations, and controls appeared to be strengthened.

FINANCIAL INTEGRITY ACT

Section 9-18-104, *Tennessee Code Annotated*, requires the head of each executive agency to submit a letter acknowledging responsibility for maintaining the internal control system of the agency to the Commissioner of Finance and Administration and the Comptroller of the Treasury by June 30 each year.

Our objective was to determine whether the department's June 30, 2002, and June 30, 2001, responsibility letters were filed in compliance with Section 9-18-104, *Tennessee Code Annotated*.

We reviewed the June 30, 2002, and June 30, 2001, responsibility letters submitted to the Comptroller of the Treasury and to the Department of Finance and Administration to determine adherence to the submission deadline. We determined that the Financial Integrity Act responsibility letters were submitted on time.

**DEPARTMENT OF FINANCE AND ADMINISTRATION POLICY 20,
RECORDING OF FEDERAL GRANT EXPENDITURES AND REVENUES**

Department of Finance and Administration Policy 20 requires that state departments whose financial records are maintained on the State of Tennessee Accounting and Reporting System (STARS) fully utilize the STARS grant module to record the receipt and expenditure of all federal funds. Our objectives were to determine whether

- appropriate grant information was entered into the STARS Grant Control Table upon notification of the grant award, and related revenue and expenditure transactions were coded with the proper grant codes;
- appropriate payroll costs were reallocated to federal programs within 30 days of each month-end using an authorized redistribution method;
- the department made drawdowns at least weekly using the applicable STARS reports;
- the department negotiated an appropriate indirect cost recovery plan, and indirect costs were included in drawdowns; and
- the department utilized the appropriate STARS reports as bases for preparing the Schedules of Expenditures of Federal Awards and reports submitted to the federal government.

We interviewed key personnel to gain an understanding of the department's procedures and controls concerning Policy 20. We found no significant weaknesses concerning Policy 20.

OBSERVATIONS AND COMMENTS

TITLE VI OF THE CIVIL RIGHTS ACT OF 1964

Section 4-21-901, *Tennessee Code Annotated*, requires each state governmental entity subject to the requirements of Title VI of the Civil Rights Act of 1964 to submit an annual Title VI compliance report and implementation plan to the Department of Audit by June 30 each year. The Department of Mental Health and Developmental Disabilities filed its compliance reports and implementation plans on July 2, 2001, and June 28, 2002.

Title VI of the Civil Rights Act of 1964 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no person shall, on the grounds of race, color, or origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal funds. The Human Rights Commission is the coordinating state agency for the monitoring and enforcement of Title VI. A summary of the dates state agencies filed their annual Title VI compliance reports and implementation plans is presented in the special report *Submission of Title VI Implementation Plans*, issued annually by the Comptroller of the Treasury.

APPENDIX

DIVISIONS AND ALLOTMENT CODES

Department of Mental Health and Developmental Disabilities divisions and allotment codes:

- 339.01 Administrative Services Division
- 339.05 Mental Health Services Administration
- 339.08 Community Mental Health Services
- 339.10 Lakeshore Mental Health Institute
- 339.11 Middle Tennessee Mental Health Institute
- 339.12 Western Mental Health Institute
- 339.16 Moccasin Bend Mental Health Institute
- 339.17 Memphis Mental Health Institute
- 339.21 Mental Retardation Administration
- 339.22 Developmental Disabilities Council
- 339.23 Community Mental Retardation Services
- 339.40 Major Maintenance